

Summary of Grid West Forum Meeting January 9-10, 2006

Introduction to Summary

This summary is intended to briefly describe the topics discussed and nature of discussion during the January 9 and 10 meeting of the Grid West Forum. It is not intended to be a verbatim transcript of anyone's remarks, and it is not intended to suggest that any particular person or entity at the meeting agreed with or endorsed the views described in this summary.

Overview of January 9-10, 2006 Grid West Forum Meeting

- The Grid West Forum met at the Sheraton Portland Airport Hotel in Portland, Oregon on Monday, Monday, January 9, 2006, from 10:00 a.m. to 4:50 p.m. PST and Tuesday, January 10, 2006, from 8:30 a.m. to 11:30 a.m. PST.
- Approximately 75 people attended the meeting, including seven state representatives. Three state representatives participated by phone along with one other participant.
- Sarah Dennison-Leonard and the bylaws work group presented and explained revisions made to the Grid West bylaws since the December 6th meeting of the Grid West Forum. Revisions reflect comments heard at the last meeting from the advisory group, written comments, and informal discussions with some advisory group members. On the second day of the meeting, everyone who commented on the status of the revised bylaws for Grid West agreed that, except for further refinement of the MTU definition, the bylaws should be deemed finished.
- Steve Walton and The Structure Group presented a Grid West Impact Assessment report prepared by the technical review group during the past six weeks. The report included design, cost, and benefit impacts, and a value proposition analysis. The Grid West Forum participants asked questions about the impact assessment of Grid West and discussed some details about the workability of the operational design.
- With few exceptions, the advisory group and participants told the funding transmission utilities that they supported the transmission utilities proceeding with further development and funding of Grid West. A number of participants said that the "status quo" was not acceptable; Grid West should move forward now because it is the best opportunity for the region to solve its transmission problems.
- The Grid West secretary reported on the membership process. Sharon Helms reminded parties interested in new Grid West membership that Interest Forms should be submitted by January 20. If the Interim Board decides to move forward and adopt revised bylaws for Grid West bylaws (a Board meeting is scheduled on January 24), Grid West will again be a membership organization and member meetings and elections will be scheduled. A timeline and expected schedule of Grid West activities will be prepared and sent to the Grid West Forum and membership list.

Introductions – Meeting Agenda

Bud Krogh welcomed everyone to the Grid West Forum meeting, noting the broad representation from the region and from beyond the region in attendance at the meeting. Bud said the principal purposes of the meeting were to hear about the revised bylaws for Grid West, present the impact assessment report, answer questions and discuss the information presented, and have the advisory group and participants give their views to the funding transmission utilities on proceeding with further development of Grid West. Also, a report on the Grid West membership process and next steps were on the agenda.

Revised Proposed Bylaws for Grid West Presentation

Sarah Dennison-Leonard, with help from Malcolm McLellan, Tim Shuba, and Pam Jacklin, presented refinements to the proposed Grid West bylaws. The revised bylaws, as of January 6, along with a table summarizing all proposed changes to the Grid West Operational Bylaws are posted at <http://www.gridwest.org/> . The presentation is posted at http://www.gridwest.org/Doc/GWForum_BylawsPres_Jan92006.pdf .

The presentation focused on what has changed since the December 6 Forum meeting.

Special issues list and pricing – Recognizing that some at the December 6th meeting were uncomfortable with the definition of pricing in the “special issues list,” one of the most significant changes was to the pricing approach. The bylaws work group concluded that they did not have enough information now to define Grid West’s initial pricing proposal. If the starting pricing approach is unresolved, it is difficult to define significant changes from that point. After consulting with the members of the pricing group, the bylaws work group proposed that Grid West’s initial proposal for cost-based pricing of long-term transmission rights be subject to the “Special Issues List” process (sections 7.16.1 and 7.16.3). A new section 3.2.2 clarifies that Grid West cannot unilaterally change a transmission owner’s rate design for pre-existing transmission rights.

The initial pricing proposal will be determined during the market design work and will go through the “special issues” procedures. After that, Grid West members can determine if any change in pricing is substantial enough to invoke section 7.17, which requires a super-majority Board vote and a 30-day implementation delay. Grid West members have many tools in the bylaws to assure that the Board consults with the membership about pricing or any other major issues. For pricing, any tariff changes will have to go through the Grid West tariff committee, the Board Advisory Committee, the Governmental Committee, the Board approval process, and finally the necessary regulatory processes. At each of these steps, interested stakeholders can express their views. To the extent a pricing change affects the budget, changes will go through the budget consultation process as well.

Sarah noted that the pricing provisions no longer rely on the term “company rate approach.” Responding to a question, Tim Shuba emphasized that there are still five matters on the “Special Issues List;” the refinement requires that the *initial* pricing approach go through the “special issues” procedures.

Number of independent directors – The Grid West bylaws provide for five directors until the independent Board's "critical mass" determination to begin offering transmission services. After this determination, the Board can expand itself to seven or nine directors, although it does not have the power to decrease its size. Any decrease in Board size will require an amendment to the bylaws.

MTU definition and voting rights – The current definition of Major Transmitting Utility (MTU) requires a transmission owner to have at least 550 pole miles of transmission in the Grid West Geographic Area and an OATT or equivalent tariff. MTU voting rights distinguish between two groups – during development, between current funders and non-funders; and, when operational, between those who have and have not signed a Transmission Agreement. Later in the meeting there was some discussion about allowing membership for entities engaged in transmission line development and about whether the requirement of 550 pole miles was appropriate. The bylaws work group will consider further refining the MTU definition.

"Sellers' Class" definition – Working with parties who represent generators in the region, the definition of "Generators, Power Marketers, Large Generating End-Use Consumers, and Others" was refined to allow developers with pending interconnection or service requests and money on the table to be members of Grid West. If a party does not qualify in the "generator" subclass, an effort was made to provide a way for participation in the "others" subclass for all customers in the region.

Refinements from December 6 Grid West Forum Meeting – Section 7.17, which is a member vote to trigger a supermajority Board vote and implementation delay, was retained but the required member vote was increased from 18 to 20. Other sections, agreed on at the December 6 meeting as not needed, were removed from the bylaws.

Section 5.3.1 about the initial members of Grid West was refined. This section provides that all entities listed on an attachment to the bylaws are members of Grid West as of the date the bylaws are adopted. Members required to pay the first year's annual membership dues need to submit payment of the fee within 10 days after notice that the bylaws were adopted to remain members. Other refinements, discussed at the December 6 Grid West Forum meeting, also were explained in the presentation.

Written comments on the proposed Grid West bylaws – Four parties submitted written comments, which were posted on the Grid West website. The comment letter from BPA urged that all the provisions proposed for removal be retained. Also, BPA commented that the Grid West Board should not have the power to expand the geographic scope of Grid West without a member vote. The bylaws work group reported that they discussed BPA's comments extensively, but felt that there was significantly more support to retain the proposed changes (removal of provisions). Sarah noted the other comments received were generally supportive and positive. Several who submitted comments said they appreciated the responsiveness of the bylaws work group.

The bylaws work group asked the Forum for feedback on whether the bylaws were ready to finalize and post. The goal is to finish all bylaws issues by the end of the Forum meeting and finalize the bylaws so the Interim Board can adopt the Grid West bylaws on January 24 if the funding transmission utilities commit to go forward.

Larry Nordell and Stefan Brown asked the Forum to reconsider whether section 7.17, Member Ability to Elevate Board of Directors Approval Vote on Policy or Scope Changes Considered Major, should be removed or retained. While others agreed that this provision could potentially cause difficulties for the Board, most participants thought the provision was the right compromise and should be kept in the bylaws.

Technical Review Group (TRG) Report – Grid West Impact Assessment

The Grid West Impact Assessment report in powerpoint presentation format was posted at http://www.gridwest.org/Doc/GridWest_ImpactAssessment.pdf. Steve Walton said the Technical Review Group met several times in December and January. Sean Donoghue and The Structure Group did most of the design impact work, a smaller subset of the technical group performed the benefits assessment, The Structure Group compiled the cost impacts, and the Technical Review Group developed the value proposition analysis. Slides 57-84 are appendices that provide more detailed information.

Design Impacts: Referring to slides 4-32, Sean Donoghue explained the design impact and simplifications associated with BPA's withdrawal from the Grid West development. Although Grid West was expected to have seams, BPA's withdrawal has created an additional seam and a non-contiguous footprint. Two examples of similar non-contiguous footprints with successful market-to-market implementation were identified – PJM-NE and MISO. It appears that there are incentives for BPA and others to participate in Grid West markets and that a mutually beneficial relationship can be developed. Some simplification could occur without BPA. Eric King, of BPA, advised that the market and operational design should assume current business practices.

The approach was to review the original design of Grid West, identify impacts and changes, develop examples, and identify seams components. Sean highlighted the findings for reconfiguration and IWRs, reliability, consolidation of control area operations, reserve markets, scheduling and congestion management, and real-time balancing service.

A summary of the design impact assessment is on slide 31: The design remains workable, and in some cases, the design can be simplified. There will be less AFC to work with than originally expected, more seams than the original design (although fewer seams than the status quo) will require coordination, and firm transmission will be required for non-contiguous signatories.

Sean also pointed out that to achieve full benefits, improvements to current practices should occur. Beneficial improvements include a coordinated flow-based methodology, transmission products that support dynamic scheduling, pooled use of transmission rights (flexible use of transmission rights), and methods to minimize rate pancakes. Overall, the design, even without BPA, is an improvement over the status quo.

Benefits Impacts: Referring to slides 33-39, Kurt Conger explained the purpose of the benefits assessment was to evaluate the potential benefits given the non-contiguous topology of the Grid West design. Key questions were: what was the original design, how is the design impacted, and what is the net result to the benefits estimates. The group relied on previous studies and put a lot of effort into running new PowerWorld simulations to estimate benefits of Grid West with and without the participation of BPA

and Puget Sound Energy in Grid West markets (ten CCA and eight CCA cases). A report is posted at http://www.gridwest.org/Doc/GridWestBenefits_Estimate010906.pdf .

Slide 37 summarizes the impact findings for each component studied. The revised estimated benefits in dollars compared to the original estimate (done in July 2005) are on slide 38. Kurt asked people to consider the revised estimates and pinpoint areas where there might be skepticism. Slide 39 concludes that even with a reduction of transmission owner participation, net benefits evaluated for the region are positive and significant, although the amount of benefit is sensitive to the number of regional entities participating in the Grid West markets. Benefits estimates assume access to BPA transmission services and are enhanced if BPA, Puget, and others participate in Grid West markets. Grid West would facilitate development of a regional flow-based methodology consistent with the direction that BPA is taking in its business practices forum. Benefits have not been allocated or attributed to market participants, but Kurt said the framework has been built to do so as part of the ongoing development of Grid West.

Cost Impacts: Referring to slides 40-45, Sean Donoghue explained that The Structure Group evaluated the impact of fewer participating transmission owners on the estimates done in October 2005 for start up and operating costs. One significant change was to no longer assume using BPA's facilities. Investigation showed that a green field option was at most 10% more than the original cost estimate for facilities. Another primary impact that decreased estimated costs was to reduce the number of employees by 25 FTEs.

For all cost components, the net impact was a \$2 million increase for estimated start up cost to \$135 million; and a \$4.3 million reduction for estimated annual operating costs to \$86.8 million. Cost impact details are in slides 71-81 of Appendix B of the report.

Value Proposition: Referring to slides 46-56, Steve Walton, summarized that even with reduced transmission owner participation the original value proposition, based on the existing design as of July 22, 2005, is thought to be achievable. An arrangement with non-signatories may be more attainable and less complicated compared to the earlier design footprint.

Grid West's design can provide significant improvements over current operations and integrate a substantial portion of the region. Grid West will become a single independent transmission provider and increase transmission utilization enabling access to diverse resources. Market opportunities are preserved.

The value pyramid on slide 56 illustrates that the Grid West proposal is still substantially workable and cost-effective. There were several questions about the value proposition. Steve clarified that the purpose of the assessment was to inform the funding utilities' decision on whether to spend monies on further development of Grid West.

Starting the meeting on the 10th, Steve addressed questions about arrangements for BPA's participation in Grid West markets, optimization, dynamic scheduling, and a grid management charge. Joe Rogers said BPA fully anticipates a "seams arrangement" although timing of the arrangement is in question. BPA intends to focus on 1) operations, planning, and flow-based methods, and 2) commercial use. Joe noted other parties, in addition, to BPA will have seams with Grid West, e.g., CalSO.

Views of Grid West Forum Participants

Bud Krogh asked each advisory group member and other participants to give their views on the question: Based on what you read and heard in the materials posted and presented and during the discussion about the proposed Grid West bylaws and impact assessment, including assessment of benefits, what is your view on whether the funding transmission utilities should continue to fund Grid West? Bud also asked for feedback on whether the governance and bylaws are completed.

Twenty-two participants expressed views on moving forward. No one who commented objected to the continued funding of Grid West development. Supporters said the region should take the opportunity now to address its transmission problems and move forward with development of Grid West. Many said they were pleased that Grid West appears to be workable and cost-effective even with fewer participants. State regulators encouraged everyone to keep working and move forward, although Montana Public Service Commissioner Schneider expressed some concern related to the recent change in the benefit estimates. Dwight Langer, Northern Wasco PUD, said the Grid West model is superior in all respects – it provides and enhances reliability. But, he said the region's stakeholders need a decision soon.

Sue Ackerman said NRU members still support convergence, however she encouraged the transmission utilities to continue to fund Grid West development. It's very important for Grid West, as a public service organization, to serve all the public in the region. Eric King said it's a hard question for BPA. BPA continues to think an "integration-type proposal" is the best approach.

Representatives of the seven funding transmission utilities expressed appreciation for the hard work over a short period of time on the bylaws and technical impact assessment. They were gratified by the support from the stakeholders for moving forward with funding further development of Grid West. Funding utilities said they will be meeting with their company management teams before the upcoming decision on January 24.

Participants gave a "thumbs up" and agreed that the Grid West governance and bylaws were complete enough. Many expressed appreciation to the bylaws work group for responding to concerns and keeping everyone well informed.

Bud Krogh concluded that he heard close to unanimous support for moving forward with further development and funding of Grid West. Bud thanked everyone, especially the states, for the extraordinary amount of supportive resources contributed to the development of Grid West.

Grid West Membership Process

Grid West secretary Sharon Helms said Grid West is pre-qualifying entities interested in Grid West membership. Interest Forms are posted and should be submitted to the secretary by January 20 so the Membership Admissions Committee (MAC) can consider qualifications. Carol Opatrny, Stefan Brown, Aleka Scott, Scott Gutting, and Robert Kahn are serving on the MAC.

Previous members of Grid West do not need to take any action to be members of Grid West when it is again a membership organization. Entities in "declaratory" status will be listed as members of Grid West and can continue as members by submitting the annual

membership fee of \$1000 within 10 days of adoption of the new Grid West bylaws. If the bylaws are adopted on January 24, the fee will be due on February 3.

If the bylaws are adopted, then there will be a meeting of the members in early February to elect the Members Representative Committee (MRC) followed by a MRC meeting with Larry Klock, of Russell Reynolds, to go over the slate of candidates for the independent Grid West Board.

Announcement from Ted Williams

Ted Williams, current Grid West president, announced he is taking on an expanded role in transmission services at NorthWestern Energy. Ray Brush has been appointed to take on Grid West responsibilities. Ted said he sees Grid West closer to fruition than it has ever been. He thanked everyone for the privilege of working together with regional parties on Grid West, and Forum participants responded by giving Ted a round of applause.

Next Steps – Grid West Meeting Schedule

Grid West Forum participants agreed that another Forum meeting was not needed in the near future. No further Grid West Forum meetings were scheduled.

A timeline and schedule for Grid West member activities and meetings (based on a decision to continue development of Grid West and adoption of new Grid West bylaws) will be posted and sent to Forum participants and the membership list.